

Internal Revenue Service
District Director

Department of the Treasury

Person to Contact:

Telephone Number:

Date: JUL 18 1994

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted indicates that you were incorporated under the Non-Profit Corporation Act. You were originally incorporated under the name and, on , your name was changed to . Again, , your name was changed to . Your stated objects and purposes are to encourage, stimulate and foster the exchange of ideas and information between users of products and to provide direction to in the development of new products and better services; to foster and unite such users for the purpose of maintaining a compact, representative and centralized Association for the exchange of accurate and reliable information for members and to provide for trade and exchange of services, ideas, products, and statistical business information relating to products.

Your membership is limited to users of products as stated in your By-Laws, revision date of . Your members are all engaged in the business of remittance processing and use of equipment manufactured and sold by . is a leading supplier of document and document image processing hardware and software that allows banks and other companies to handle the billions of checks and other financial documents written throughout the world each year. is also a provider of network services to users of personal computers and local area networks.

Your membership represents a wide range of business (gas companies, power companies, insurance companies, and banks) all which are "interested" in providing better working conditions, better technology, and more job satisfaction to their employees. By offering advanced high-technology products, is helping companies throughout the world become more efficient and more profitable. You serve as a means to enhance sales and use of equipment.

Your primary activities are an annual conference and providing continuing education of employees of members on processing techniques, labor relations, disaster recovery, changes to the U. S. Postal System and an open forum through training and industry meetings. Remittance processing involves the

collection, processing, depositing, and posting of both wholesale and/or retail payments. The [REDACTED] equipment used to process these payments uses optical character recognition (ocr) or image technology to increase the speed and accuracy at which payments are processed. Systems developed around this equipment are designed to accelerate the cashflow for the end user while providing a cost efficient way to process the payments. The conference provides information on processing techniques, labor relations, changes to postal systems and open forum which is designed so that members can network to discuss common problems and solutions all which impact a company's competitive advantage.

You have stated that the common business interest could be defined as "to cause to become involved or concerned with." Your stated your common line of business is defined as "a general method, manner or course of procedure." The common line of business is that all members have large numbers of customers, donors, and/or policyholders who send payments through the mail. You stated that [REDACTED]'s, common business is to improve the conditions of those employees/members involved in the "line" of processing mass remittances.

Section 501(a) of the Code provides, in relevant part, that an organization described in subsection (c) shall be exempt from taxation.

Section 501(c)(6) of the Code provides for the exemption from Federal income taxation of business leagues not organized for profit, and no part of the earnings of which inures to the benefit of private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides, in relevant part, that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. The activities of the organization must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

In National Muffler Dealer Association, Inc. v. United States, 440 U.S. 472, 59 L. Ed 2d 519 (1979), the United States Supreme Court affirmed a lower court decision that an organization of muffler dealers, franchised by Midas International Corporation, which had confined its membership to Midas dealers and its activities to the Midas muffler business, was not a "business league" within the meaning of section 501(c)(6) of the Code. The Court validated the "line of business" test set forth in section 1.501(c)(6)-1 of the regulations and recognized the body of authority interpreting that test to mean that an organization's activities must be directed to the improvement of business conditions in an "entire industry" or "all components of an industry within a geographic area." 440 U.S. at 481-482, 59 L. Ed. 2d at 528.

In National Prime Users Group, Inc. v. United States, 667 F. Supp. 250 (D. Md. 1987), 60 AFTR 2d 87-5564 (D. Md 1987), citing National Muffler Dealer's Association, Inc. v. United States, supra, the court held that National Prime Users Group (NPUG), an organization comprised of persons which owned, leased or operated computer equipment manufactured by Prime Computer, Inc. (Prime), was not a "business league" within the meaning of section 501(c)(6) of the Code. The court emphasized (i) the name of the organization clearly indicated

that the organization was intended to promote Prime's products, (ii) the operation of the organization only served Prime users, (iii) the purpose of the organization as set forth in its corporate documents was to provide an organized method of communication among Prime users, (iv) there was no evidence that membership in the organization was open to non-Prime user, (v) the majority of presentations made at the organization's conferences were made by Prime representatives, (vi) Prime was the only computer company involved in the conferences, (vii) all of the topics addressed in the organization's newsletters and conferences were directed to, the use of Prime computers, and (viii) Prime used the organization as an important marketing vehicle. The court concluded that NFUG endeavored to serve solely the interests of Prime." 667 F. Supp. at 256. The court found that the organization's activities provided a competitive advantage to Prime. The court held that there was a consistent focus of its activities on Prime products and users.

In Guide International Corporation v. United States, No 90-2441 (7th Cir. Nov. 21, 1991), aff'g 90-1 USTC 50,304 (N.D. Ill. 1990), the court held that although the Guide's stated purpose is to facilitate the use and exchange of information regarding data processing equipment in general, it is evident that it benefits essentially the users of IBM main frames. Thus the primary benefit of the organization inures to IBM, a segment of the business and not a line of business. While Guide members may reflect a wide variety of businesses, no single business is enhanced, only those individual within the industry using IBM main frames. Indeed, by catering to IBM users, Guide excludes 25-30% of the main frame market. Other companies may benefit from the research activities conducted by Guide and published for public consumption, however, this is only an incidental benefit. This is insufficient to satisfy the line of business test. Further, IBM enjoys a distinct advantage over other computer companies at the Guide conference: no companies are allowed to solicit business, yet IBM supplies a personal computer, administrative personnel, copiers and refreshments. Guide provides IBM with a powerful marketing tool for their products and convenient forum for IBM to develop and enhance customer relations. The Supreme Court held in National Muffler Dealers that a group which promotes a particular product at the expense of others in the industry necessarily fails the line of business requirement. This the case with Guide. The court found it was not a tax exempt business league under section 501(c)(6) of the Internal Revenue Code.

Rev. Rul. 74-147, 1974-1 CB 136, holds that an organization comprised of members who represent diversified businesses that own, rent, or lease digital computers produced by various manufacturers, the purpose of which is to improve the efficiency of its members' use of computers, qualifies for exemption under section 501(c)(6) of the Code. The common business interest shared by the members of the organization is the common business problems concerning the use of digital computers.

Rev. Rul. 83-163, 1983-2 CB 95, distinguishing Rev. Rul. 74-147, supra, holds that an organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under section 501(c)(6) of the Code. The activities of the organization were limited to users of a particular computer and thus found to be benefiting a segment of a line of business rather than improving the business conditions of one or more lines of business.

In the National Prime Users case, your name; your policy of commercialism; your purpose, as set forth in your corporate documents, to provide an organized method of communication among [REDACTED] users; and your consistent focus on [REDACTED] and, with few exceptions, only its users; Rev. Rul. 84-164, supra and the National Muffler Dealer's Association case, indicates that your primary purpose is to benefit [REDACTED] users which does not benefit a line of business. While other companies may receive some small amount of your attention, one company receives the overwhelming amount of your attention and you are satisfying the needs of consumers of that one company's products.

Accordingly, we conclude that you are not described within section 501(c)(6) of the Code. Therefore, you do not qualify for exemption from Federal income taxation under that subsection. We have further determined that you do not qualify under any other subsection of section 501(a). Thus, you are required to file Federal income tax returns.

If you do not agree with our determination, you may request that the Office of Regional Director of Appeals consider the matter. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing please request it when you file your appeal, and we will contact you to arrange a date. The hearing may be held at the regional office, or if you request, at any mutually convenient district office. If someone will represent you who is not one of your principle officers, that person will need to file a power of attorney or tax information authorization with us.

If you do not appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination on this matter.

Sincerely,

[REDACTED]
[REDACTED]
District Director

cc: [REDACTED]

Enclosure: Publication 892